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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000045

SIPDIS

STATE FOR EAP AND EB  
TREASURY FOR OASIA  
CDR USPACOM FOR FPA

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TAGS: [PREL](#) [EFIN](#) [EAID](#) [BM](#) [JP](#)

SUBJECT: JAPAN EXPANDS DEBT RELIEF; AGREES TO HOST  
CONSULTATIVE GROUP ON BURMA

Classified By: COM Carmen Martinez. Reason: 1.5 (d).

[11.](#) (C) Summary: Japan has agreed to host a consultative group meeting on Burma in mid-February. It is also edging towards support for economic reform in Burma. How far it can or should go in that regard, absent real political reform, will likely be one of the prime topics at the February meeting. End Summary.

#### Consultative Group Meeting

[12.](#) (C) The Japanese Government has agreed to host a consultative group meeting on Burma in mid-February. According to Japanese Embassy sources, the agenda will include political transition, economic reform and human rights issues. The Japanese may also take advantage of the meeting to present a summary of the economic reform recommendations that have emerged from their Structural Adjustment Project. The Thai and Indian Embassies have both told us that their governments plan to attend.

#### Structural Adjustment Program

[13.](#) (C) The latest workshop on the Japanese Structural Adjustment Program was held December 21 and 22. David Abel headed the Burmese side; a Japanese academic (Professor Odaka) headed the Japanese. The Burmese accepted the Japanese recommendations, including currency unification, but argued as usual that they needed time and financing support for major adjustments. The Japanese also pushed the idea of "special zones" for industry and agriculture within which some of the GOB's regulations might be lifted. Again, the Burmese accepted the idea, but made no commitments on implementation.

[14.](#) (C) The next step will be a government-to-government meeting (as opposed to the latest workshop, which was billed as an academic exchange) probably in early March to work on an implementation plan for the proposed reforms. At that point, Japanese Embassy sources indicated, they will have to talk about programs of financial support.

#### Debt Relief

[15.](#) (C) The Japanese government will provide Burma with debt relief equivalent to about 150 billion yen (\$1.3 billion) under a program that will be implemented starting in February 2004 and which will cover all maturities coming due after April 2003. According to the Embassy, the program will not cover arrears to Japan, which, in Burma's case, are now equivalent to about \$2 billion. Those arrears will still be available for use as leverage in encouraging economic reform.

[16.](#) (C) The program is not specific to Burma, although Burma is easily the largest beneficiary. The debts of a whole variety of heavily-indebted states, totaling about 900 billion yen, will be forgiven under the program. There is also no connection to political developments in Burma. According to Japanese Embassy sources, the new debt relief initiative was the product of a general review of Japanese debt relief practices. Previously, the Japanese had forgiven debt on an annual basis by providing matching grants for any debt service paid by heavily-indebted countries. However, asking countries to come up with the debt payments before relief could be granted made the whole program dependent on recipient nations' cash flow. Whenever recipient nations had cash flow problems; i.e., whenever they needed the relief most, the whole program broke down. The new approach will avoid those problems.

#### Comment

[17.](#) The Japanese are obviously edging towards support for economic reform in Burma. They will want to talk about this at the Consultative Group meeting in February and will likely argue that it is time to move beyond humanitarian assistance and the treatment of symptoms in Burma to the treatment of root causes. That in turn could set the stage for a debate as to whether anything can or should be done to treat these problems absent real political reform. End Comment.

